

Business Report 2012

March 1, 2011 – February 29, 2012



Innovation, Excitement and Surprise

youme



Izumi Co.,Ltd.



"you me," evolving and expanding

Committed to being a vital part of the community, and the number one store in the region.

**A whole new community within a community,
built for freedom and fluidity of movement.**

To revolutionize people's lifestyles, making them more enjoyable and active—this is the aim of Izumi, a company that works to build both communities and dreams. We develop shopping malls, which are large-scale, multi-purpose commercial complexes that offer easy access to and work synergistically with pre-existing shopping districts, and act as a driving force behind regional revitalization. These shopping malls blend harmoniously with surrounding natural and urban environments and community facilities, and feature an array of restaurants, amusements, cultural and community offerings and other facilities. They are entire new communities built for user-friendliness, comfort and a feeling of liberation, where people can enjoy shopping and leisure and make their dreams come true. We work to build commercial facilities and human environments that fit in closely with communities, meet the local needs, and make community residents glad that they chose to live there.

We have achieved increased revenues and profits for the term, our 50th year, and successfully laid the foundation for future growth.

The Japanese economy decelerated sharply in this term as a result of the supply-side restrictions imposed by the Great East Japan Earthquake, the European debt crisis and progressing yen appreciation, and while it recovered somewhat through reconstruction demand and financial deregulation measures, the outlook for the future remains unclear.

The Izumi Group continued to implement measures to further improve management and operations, striving toward our goal of providing the best possible customer satisfaction. We began our 50th year of operation on November 3, 2011, and to ensure that we continue to offer our customers attractive products have reviewed product quality, prices and methods of provision.

The effectiveness of this approach has been demonstrated by the increase in both revenues and profits again for this term.

In the home goods sector, under our slogan of “The Good Life, Inexpensively!” we continued to offer our line of competitively priced products for daily life. We also reviewed product line-ups and methods of provision to implement flexible inventory management responsive to weather and sales trends. While boosting customer draw by welcoming competitive tenants to our facilities, we also entered into comprehensive regional redevelopment agreements with Hiroshima and Kumamoto prefectures, launching aggressive programs to market their local products. We continued to work to further reduce costs, by seeking lower purchase prices, improving labor efficiency, and optimizing existing operations, contributing to improved profitability.

We opened the new You Me Town Tokushima in November. It has made an excellent start, leveraging the powerful customer draw it has gained as the largest commercial facility in the region.

In the non-retail sector, we further advanced programs to expand fees from credit operations and sale of our “Yumeca” electronic money. In wholesaling, yen appreciation made it possible to further reduce costs, heightening profitability. The store space rental sector continued to show stable revenues.

The employment and income situation remains quite difficult in Japan, and it is expected that there will be minimal growth in individual consumption. The Izumi Group will continue to meet and exceed customer expectations, serving their needs under our “The Good Life Inexpensively!” slogan. We plan to achieve a new record for profit for the term through enhanced productivity, thanks to in-house standardization measures, and to fuel further growth in the future will advance our “You Me Mart” project for small-scale market regions, develop new business lines, and train the next generation of professionals.

I sincerely thank all of our stockholders for their continued feedback and support.



Yasuaki Yamanishi
President and
representative director

The History of Izumi Co.,Ltd.

1946	Yoshimasa Yamanishi (the current chairperson) opens a stall outside the Hiroshima train station.
1950	Apparel wholesaler Yamanishi Shoten Co., Ltd., is established.
1961	Izumi Co.,Ltd., is established and the first Izumi supermarket is opened.
1967	Second store is opened next to the Hiroshima train station.
1968	Hiring of large numbers of new college graduates begins.
1969	Okayama store is opened.
1970	Kure store is opened.
1972	Sun Mall outlet is opened.
1973	Gion store, the first suburban store is opened.
1974	Nihon Ryutsu Sangyo Co., Ltd. (Nichiryu), a cooperative buying organization, is established.
1977	Izumi joins the Japan Chain Stores Association.
1978	Stock is listed on the Osaka Securities Exchange, second section, and the Hiroshima Securities Exchange.
1980	Izumi changes the Japanese spelling of its company name ("Izumi" changes from hiragana to katakana).
1983	Total Quality Control (TQC) is introduced, and efforts are made to vitalize the entire organization.
1985	Point of sale (POS) system is introduced, and progress is made on integration of company information. Fashion boutique building Wiz Wonderland is opened.
1986	Stock is listed on the Tokyo Stock Exchange, second section, and the Osaka Securities Exchange, first section.
1987	Stock is listed on the Tokyo Stock Exchange, first section. ai Card is introduced.
1990	The You Me Town shopping center format is launched. X-sell Inc. is established as part of the Company's import business.
1991	Yoshimasa Yamanishi (the current chairperson) is awarded the Japanese Medal of Honor with blue ribbon for excellence in public service. The Company is awarded the Chugoku Regional Quality Control Award.
1993	Yasuaki Yamanishi is appointed as president and representative director. Yoshimasa Yamanishi is appointed as chairperson and representative director.
1994	The Izumi women's handball team is launched. Izumi becomes an official sponsor of the 14th Asian Handball Championships in Hiroshima.
1995	Izumi begins pursuing a growth strategy based on opening shopping malls in Kyushu. The first to open is the You Me Town Onga mall in Fukuoka.
1996	Eight new shopping malls are opened, including the Kyushu flagship mall You Me Town Chikushino. Izumi Food Service Co., Ltd., is established.
1997	The Izumi Museum of Art is founded. Youme Card Co., Ltd., is established.
1998	You Me Town Takamatsu, one of the largest retail facilities in west Japan, is opened.
1999	The Company receives two awards, the Hiroshima Josei Shonen Shitsu-cho Award for businesses that promote equal opportunities for men and women, and the Ministry of Health, Labour and Welfare Award for businesses that provide employment opportunities for the disabled. The Izumi women's handball team becomes a "triple crown" winner for the first time in its history.
2000	Yumesaito, You Me Town Hakata, and You Me Town Yame malls are opened.
2001	You Me Town Omuta is opened. The Izumi women's handball team becomes the Hiroshima Maple Reds, representing the entire prefecture of Hiroshima.
2002	You Me Town Gakuen is opened. Four large-scale stores are acquired from now-defunct retailer Nikonikodo Co., Ltd.
2003	City Park Hamada and You Me Town Kurume are opened.
2004	You Me Town Hikari no Mori is opened. The Company receives an Award for Excellence from the Ministry of Health, Labour and Welfare for its promotion of active roles for women in the workplace. You Me Town Kure is opened. City Park Kure (formerly Izumi Kure) is opened.
2005	You Me Town Yatsushiro is opened.
2006	You Me Town Saga is opened. The Company is awarded the Hiroshima Labour Bureau Chief's Award for family-friendly businesses.
2007	You Me Town Beppu is opened. You Me Town Hiroshima is opened.
2008	You Me Town Izumo is opened. You Me Town Mitoyo is opened. You Me Town Marugame is opened.
2011	You Me Town Tokushima is opened.

"youme," evolving and growing

A key part of the local community, becoming the Number 1 store in the regions we serve.



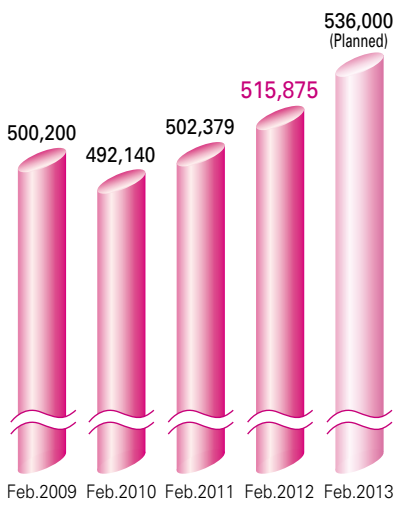
Consolidated Financial Highlights

Revenue

¥515,875 million

(Year-on-year comparison) **102.7%**

(Millions of yen)

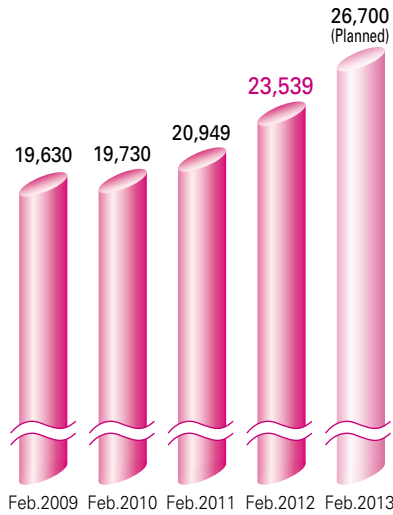


Operating income

¥23,539 million

(Year-on-year comparison) **112.4%**

(Millions of yen)

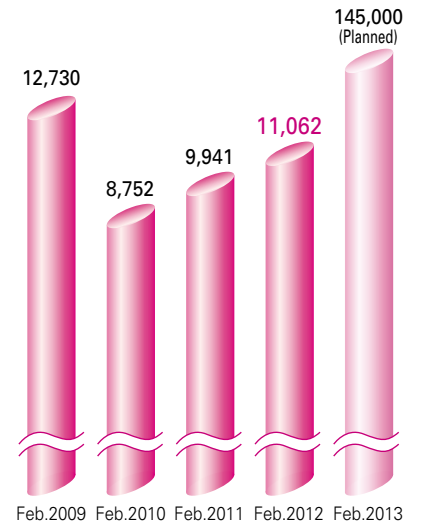


Net income for the period

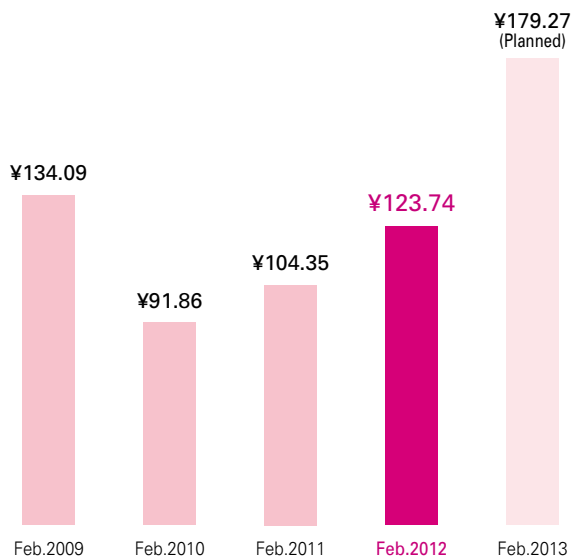
¥11,062 million

(Year-on-year comparison) **111.3%**

(Millions of yen)

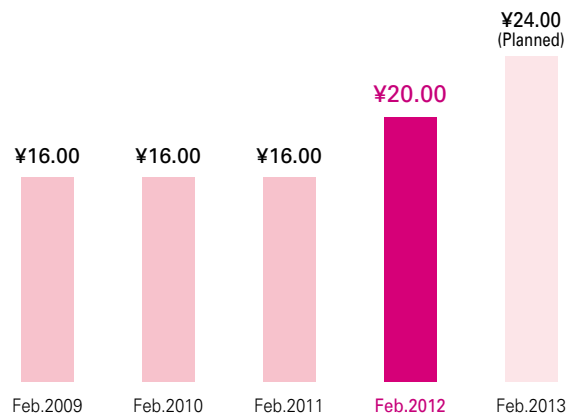


Net income per share for the period



Cash dividend per share

Cash dividends have been increased to ¥12 per share (up from ¥8), increasing the annual dividend to ¥20 per share when the midterm dividend of ¥8 is included. We will continue to strengthen our business structure to ensure stable and substantial returns to our shareholders in the future.



Diverse retail facilities for the different needs of each region

The Izumi Group operates not only large-scale commercial facilities like You Me Town but also small-scale SC retail outlets designed for daily use in smaller regions, and DS retail outlets in highly price-conscious areas.

We develop the retail facilities optimal for the needs of the region it serves, working with our customers to help develop the community.



You Me Town Tokushima

The largest and most exciting in the prefecture!

Newly opened on November 24, 2011

Overview of facility (approximate figures)

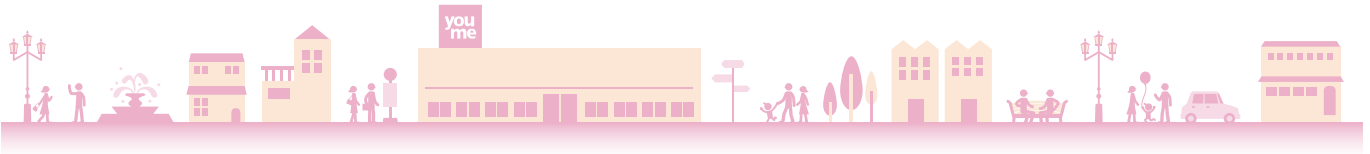
Site area: 81,200 m² / Total floor area: 125,000 m² /
Retail floor area: 40,000 m² / Parking capacity: 3,100 vehicles

A new spot for everyone from children to retirees to enjoy themselves, in young, energetic Aizumi Town

You Me Town Tokushima, the largest shopping center in Tokushima prefecture, opened on November 24, 2011.

The 250-meter long mall zone boasts a total of 88 stores and 160 individualistic specialty shops, the most in Tokushima and on the entire island. The facility offers restaurants and a food court with over 1500 seats, and powerful customer draws including the largest UNIQLO in the prefecture and the largest sporting good store in Shikoku. Since it opened it has enjoyed steady customer streams from Aizumi Town, nearby Tokushima City, and the extended region.





You Me Town Onoda

Anchor store in the prefecture's largest commercial facility

**Onoda Sun Park
Opening Summer 2012**

Overview of facility (approximate figures)

Site area: 90,660 m² / Total floor area: 67,600 m² /
Retail floor area: 38,000 m² (You Me Town 8,000) / Parking capacity: 2,200 vehicles

Our region-oriented stance recognized;
welcomed into the region's key commercial facility



Onoda Sun Park, a large-scale commercial facility, was opened in southwestern Yamaguchi prefecture in 1983. It underwent major renovation in 2008, and when anchor tenant GMS pulled out the Izumi Group was asked to lend its assistance in revitalizing and developing the region. We were proud to join forces as a new tenant.

There are already several You Me Town facilities in western Yamaguchi prefecture, in Ube and Shimonoseki cities, but Sanyo-Onoda City is situated roughly between them. The geographical gap represented a key commercial opportunity, attracting customers from nearby Mine and Nagato cities as well.

You Me Mart Kokurahigashi

A new type of SM store!

**Opening
Summer 2012**

Overview of facility (approximate figures)

Site area: 10,000 m² / Total floor area: 4,200 m² /
Retail floor area: 2,700 m² / Parking capacity: 160 vehicles / Bicycle parking capacity: 80 bicycles

Enhanced customer draw by combining a food supermarket with a drugstore



The You Mart Kokurahigashi store is a new type of retail facility combining food supermarket and drugstore. Responding to accelerating metropolitan market trends to return to the inner city, this design offers heightened convenience and daily utility. As the first store of its kind for the Izumi Group, this outlet offers a wide range of products under our "The Good Life Inexpensively!" slogan, and provides extensive bicycle parking coupled with extended hours to serve customers on their way home from work each day.

Other facilities of this type will be opened starting next year.

A new frontier for Izumi You Me Town: Direct Management

You Me Town is a large-scale shopping complex, but depending on the market scale, region and company, it may be difficult for mass merchandisers to become tenants. To resolve this problem, Izumi has developed an approach that allows direct management for You Me Town operations.

Currently this management stance is used mostly for sundries and sporting goods retailers, but in the future it will be expanded to include bookstores and other new business lines. By maintaining the best balance in shop composition for each region, the Izumi Group can continue to create new, targeted demand, further contributing to customer satisfaction and revenue growth.



A fun shop with early-Showa atmosphere Yume Yokocho Country Store

Stop by for old-fashioned snacks and sundries in a store that will remind you of the early Showa era: fond memories for the older generations, and new discoveries for the kids! Following the initial launch in Yukuhashi, seven other shops are being readied in You Me Town complexes (as of May 2011).



All the famous sporting good brands in one small area Sportslet

This specialty store brings together all the jogging goods and general sportswear needed by the general public, including popular brands such as Nike, Adidas, Puma and Mizuno. About ten outlets are scheduled to begin operations this year.



CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S.dollars
	2011	2012	2012
As of Feb 28,2011 and Feb 29,2012			
(Assets)			
Current assets			
Cash and deposits	¥ 12,316	¥ 6,260	\$ 77,594
Notes and accounts receivable-trade	18,456	20,323	251,906
Merchandise and finished goods	20,726	20,677	256,288
Work in process	68	17	222
Raw materials and supplies	273	267	3,311
Deferred tax assets	2,323	2,677	33,181
Other	13,318	11,647	144,368
Allowance for doubtful accounts	(940)	(830)	(10,297)
Total current assets	66,542	61,040	756,575
Noncurrent assets			
Property, plant and equipment			
Buildings and structures	273,411	288,074	3,603,450
Accumulated depreciation	(138,640)	(148,645)	(1,875,280)
Buildings and structures, net	134,771	139,428	1,728,169
Machinery, equipment and vehicles	5,564	5,696	70,675
Accumulated depreciation	(4,096)	(4,321)	(53,629)
Machinery, equipment and vehicles, net	1,468	1,375	17,046
Land	119,080	121,051	1,500,392
Lease assets	556	556	6,893
Accumulated depreciation	(54)	(79)	(987)
Lease assets, net	501	476	5,905
Construction in progress	680	791	9,815
Other	29,349	29,739	368,616
Accumulated depreciation	(22,553)	(23,972)	(297,133)
Other, net	6,795	5,767	71,483
Total property, plant and equipment	263,297	268,891	3,332,813
Intangible assets	7,178	7,059	87,499
Investments and other assets			
Investment securities	4,840	3,874	48,026
Long-term loans receivable	1,955	1,929	23,912
Deferred tax assets	4,594	5,279	65,434
Lease and guarantee deposits	18,011	17,623	218,440
Other	2,944	5,465	67,744
Allowance for doubtful accounts	(781)	(786)	(9,751)
Total investments and other assets	31,565	33,385	413,807
Total noncurrent assets	302,041	309,336	3,834,120
Total assets	368,584	370,377	4,590,696

	Millions of yen		Thousands of U.S.dollars
	2011	2012	2012
(Liabilities)			
Current liabilities			
Notes and accounts payable-trade	¥ 20,773	¥ 21,715	\$ 269,157
Short-term loans payable	35,890	32,025	396,938
Current portion of long-term loans payable	22,178	23,969	297,098
Accounts payable-other	6,215	9,403	116,555
Income taxes payable	5,180	6,179	76,590
Provision for bonuses	1,525	1,482	18,375
Provision for directors' bonuses	23	62	774
Provision for point card certificates	1,209	1,584	19,637
Provision for loss on recollection of gift certificates	54	53	661
Other	6,631	6,447	79,919
Total current liabilities	99,682	102,924	1,275,708
Noncurrent liabilities			
Long-term loans payable	102,675	101,605	1,259,359
Lease obligations	506	486	6,030
Long-term lease and guarantee deposited	23,974	24,066	298,300
Provision for retirement benefits	5,836	6,070	75,238
Provision for directors' retirement benefits	830	962	11,930
Deferred tax liabilities	1,001	857	10,628
Provision for loss on interest repayment	565	482	5,983
Asset retirement obligations	—	6,796	84,242
Other	999	734	9,108
Total noncurrent liabilities	136,389	142,063	1,760,823
Total liabilities	236,071	244,987	3,036,531
(Net assets)			
Shareholders' equity			
Capital stock	19,613	19,613	243,106
Capital surplus	22,282	22,282	276,177
Retained earnings	96,743	87,555	1,085,223
Treasury stock	(16,262)	(17,043)	(211,253)
Total shareholders' equity	122,377	112,407	1,393,254
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	472	214	2,654
Foreign currency translation adjustment	(312)	(319)	(3,957)
Total valuation and translation adjustments	159	(105)	(1,303)
Minority interests	9,976	13,087	162,212
Total net assets	132,513	125,389	1,554,164
Total liabilities and net assets	368,584	370,377	4,590,696

Notes : U.S.dollar amounts are translated from yen,for convenience only,at,the rate of ¥80.68=U.S.\$1 as of February 29,2012.

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen		Thousands of U.S.dollars
	2011	2012	2012
For the years ended Feb 28,2011 and Feb 29,2012			
Net sales	¥ 478,988	¥ 491,955	\$ 6,097,611
Cost of sales	378,145	385,769	4,781,473
Gross profit	100,842	106,185	1,316,137
Operating revenue	23,391	23,919	296,477
Operating gross profit	124,233	130,105	1,612,614
Selling, general and administrative expenses			
Advertising and promotion expenses	8,292	7,891	97,813
Distribution expenses	5,479	5,497	68,139
Provision of allowance for doubtful accounts	638	207	2,566
Employees' salaries and bonuses	33,701	36,434	451,587
Provision for bonuses	1,516	1,445	17,922
Welfare expenses	5,678	6,226	77,172
Retirement benefit expenses	669	815	10,112
Rent expenses	9,268	8,933	110,733
Utilities expenses	5,692	5,715	70,835
Depreciation	14,206	13,432	166,489
Provision for loss on interest repayment	300	66	820
Other	17,005	19,185	237,793
Total selling, general and administrative expenses	102,450	105,851	1,311,985
Operating income	21,783	24,254	300,628
Non-operating income			
Interest income	172	162	2,008
Dividends income	191	76	943
Purchase discounts	392	389	4,825
Gain on adjustment of account payable	114	111	1,383
Penalty income	252	223	2,775
Other	615	527	6,539
Total non-operating income	1,739	1,490	18,475
Non-operating expenses			
Interest expenses	2,149	1,918	23,783
Compensation expenses	92	—	—
Other	330	287	3,561
Total non-operating expenses	2,573	2,206	27,345
Ordinary income	20,949	23,539	291,759
Extraordinary income			
Gain on sales of noncurrent assets	29	11	137
Gain on sales of securities	2,546	2,518	31,219
Reversal of allowance for doubtful accounts	17	62	775
Reversal of provision for directors' retirement benefits	103	—	—
Other	170	259	3,214
Total extraordinary income	2,867	2,851	35,347
Extraordinary loss			
Loss on sales of noncurrent assets	45	3	37
Loss on retirement of noncurrent assets	396	736	9,129
Impairment loss	1,494	326	4,042
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	1,844	22,856
Other	285	224	2,783
Total extraordinary losses	2,221	3,134	38,849
Income before income taxes and minority interests	21,596	23,256	288,257
Income taxes-current	8,848	10,068	124,795
Income taxes-deferred	(419)	(1,016)	(12,594)
Total income taxes	8,429	9,052	112,200
Income before minority interests	—	14,204	176,056
Minority interests in income (loss)	3,225	3,141	38,937
Net income	¥ 9,941	¥ 11,062	\$ 137,118

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended Feb 28,2011 and Feb 29,2012	Millions of yen		Thousands of U.S.dollars
	2011	2012	2012
Net cash provided by (used in) operating activities			
Income before income taxes and minority interests	¥ 21,596	¥ 23,256	\$ 288,257
Depreciation and amortization	14,551	13,854	171,719
Impairment loss	1,494	326	4,042
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	1,844	22,856
Amortization of negative goodwill	(68)	—	—
Increase (decrease) in allowance for doubtful accounts	(31)	(105)	(1,302)
Interest and dividends income	(363)	(238)	(2,951)
Loss (gain) on sales of securities	(2,546)	(2,518)	(31,219)
Interest expenses	2,149	1,918	23,783
Equity in (earnings) losses of affiliates	(13)	(17)	(217)
Loss (gain) on sales of noncurrent assets	15	(8)	(100)
Loss on retirement of noncurrent assets	396	736	9,129
Decrease (increase) in notes and accounts receivable-trade	(924)	(1,867)	(23,144)
Decrease (increase) in inventories	2,471	105	1,308
Increase (decrease) in notes and accounts payable-trade	(9,555)	942	11,682
Other, net	(5,231)	(1,928)	(23,903)
Subtotal	23,939	36,301	449,938
Interest and dividends income received	351	228	2,827
Interest expenses paid	(2,340)	(1,917)	(23,761)
Income taxes (paid) refund	(9,768)	(9,050)	(112,179)
Net cash provided by (used in) operating activities	12,181	25,561	316,825
Net cash provided by (used in) investing activities			
Purchase of property, plant and equipment	(12,164)	(12,058)	(149,457)
Proceeds from sales of property, plant and equipment	195	39	484
Purchase of intangible assets	(560)	(835)	(10,360)
Purchase of investment securities	(4)	(115)	(1,427)
Proceeds from sales of investment securities	911	887	10,994
Decrease (increase) in short-term loans receivable	3,392	1,878	23,285
Other, net	0	522	6,473
Net cash provided by (used in) investing activities	(8,230)	(9,682)	(120,005)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	14,810	(3,865)	(47,905)
Proceeds from long-term loans payable	600	23,000	285,076
Repayment of long-term loans payable	(20,724)	(22,278)	(276,135)
Purchase of treasury stock	(1)	(17,041)	(211,224)
Cash dividends paid	(1,524)	(1,471)	(18,244)
Cash dividends paid to minority shareholders	(20)	(20)	(249)
Other, net	(256)	(257)	(3,192)
Net cash provided by (used in) financing activities	(7,117)	(21,934)	(271,874)
Effect of exchange rate change on cash and cash equivalents	(9)	(0)	(6)
Net increase (decrease) in cash and cash equivalents	(3,174)	(6,055)	(75,061)
Cash and cash equivalents at beginning of period	15,490	12,316	152,656
Cash and cash equivalents at end of period	12,316	6,260	77,594

Corporate Profile

Date of establishment: **October 27, 1961**
 Head office: **2-22 Kyobashi-cho, Minami-ku, Hiroshima 732-0828, Japan**
 Tel: **+81-82-264-3211**
 Paid-in capital: **¥19,613.9 million**
 Employees: **2,523 full-time, 4,588 part-time (8-hour shift equivalent)**
 Number of malls/stores: **88**

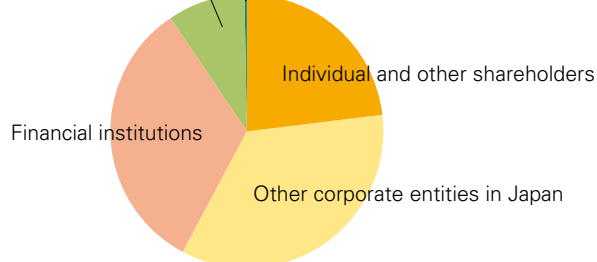
Chugoku Region		Kyushu Region		Other Regions	
Hiroshima pref.	29	Fukuoka pref.	10	Kagawa pref.	3
Yamaguchi pref.	9	Oita pref.	2	Tokushima pref.	1
Okayama pref.	10	Kumamoto pref.	5	Hyogo pref.	3
Shimane pref.	6	Saga pref.	3	Other	6
		Nagasaki pref.	1		

Stock information

Total number of shares issued by the Company 195,243,000 shares
 Total number of outstanding shares 95,273,420 shares
 Number of shareholders 4,927
 Lot size 100 shares

Distribution of stock (excluding odd-lot shares)

Foreign shareholders — Financial instruments companies



Individual and other shareholders	27.2%
Other corporate entities in Japan	39.1%
Financial institutions	24.3%
Foreign shareholders	9.2%
Financial instruments companies	0.3%

Major shareholders

Shareholder name	Shares held (unit: thousands)	Percentage of total shares
Izumiya, Ltd.	11,501	14.2%
Yamanishi World, Ltd.	8,433	10.4%
Izumi Kousan Co., Ltd.	4,104	5.1%
The Master Trust Bank of Japan, Ltd. (Trust Account)	3,751	4.6%
Japan Trustee Services Bank, Ltd. (Trust Account)	3,365	4.2%
Izumi Hiroshima Kyo-eikai	2,665	3.3%
Nippon Life Insurance Co.	2,614	3.2%
The Hiroshima Bank, Ltd.	2,362	2.9%
Yasuaki Yamanishi	2,033	2.5%
Daiichi Life Insurance Co.	2,030	2.5%

Note : Shares held by the Company itself are not included.

Izumi Co.,Ltd.

2-22, Kyobashi-cho, Minami-ku, Hiroshima 732-0828, Japan

Tel: +81-82-264-3211

<http://www.izumi.co.jp>

Printed in Japan